MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017 SESSION

BAC1614 – FUNDAMENTALS OF FINANCIAL ACCOUNTING

(All Section / Groups)

19 OCTOBER 2016
2.30PM - 5.30PM
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of 8 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

QUESTION 1

Part A

1. Syarikat MMU Sdn Bhd, owned by Ali, began operations in May and completed the following transactions during that first month of operations.

May	1	Ali invested RM90,000 cash in the company for ordinary shares
	2	The company purchased RM25,000 in office equipment. It paid RM10,000 in cash and signed a note payable promising to pay the RM15,000 over the next three years
	2	The company rented office space and paid RM3,000 for the May rent
	6	The company installed a new roof for a customer and immediately collected RM5,000
	7	The company paid a supplier RM2,000 for roofing materials used on the May 6 job.
	8	The company purchased a RM2,500 copy machine for office use on credit
	9	The company completed work for additional customers on credit in the amount of RM16,000
	15	The company paid its employee salaries RM2,300 for the first half of the month.
	17	The company installed a new roof for a customer and immediately collected RM2,400
	20	The company received RM10,000 in payments from the customers billed on May 9
	28	The company paid RM1,500 on the copy machine purchased on May 8. It will pay the remaining balance in June.
	31	The company paid its employee salaries RM2,400 for the second half of the month
	31	The company paid a supplier RM5,300 for roofing materials used on the remaining jobs completed during May.
	31	The company paid RM450 for this month's utility bill

Required

a) Record the transactions of the business in a journal. You may omit explanations of the transactions.

(6 marks)

b) After analyzing these transactions, what is the ending cash balance? Use a T-account to support your answer.

(2 marks)

c) Prepare a trial balance at the end of the month.

(2 marks)

Continued...

QUESTION 1 (cont'd)

Part A

2. Presented below is a statement of financial position for JHY Service Co. at December 31, 2015.

JHY SERVICE Co.
Statement of Financial Position
December 31, 2015

Assets		Equity and Liabilities	
Equipment	RM 11,000	Equity	
Supplies	9,000	Share Capital - Ordinary	RM 16,000
Accounts Receivable	6,000	Liabilities	
Cash	13,000	Accounts payable	8,000
		Notes Payable	15,000
Total assets	RM 39,000	Total Equity & Liabilities	RM 39,000

The following additional data are available for the year which began on January 1: All expenses (excluding supplies expense) total RM6,000. Supplies on January 1 were RM11,000 and RM5,000 of supplies were purchased during the year. Net income for the year was RM8,000 and dividends paid were RM5,000.

Required

a) Determine the amount of supplies used during the year: (Show all computations) (1.5 marks)

b) Compute the total expenses for the year (Show all computations) (1 mark)

c) Determine the total service revenue for the year (Show all computations) (1 mark)

d) Determine the equity balance on January 1, 2015 (Show all computations) (1.5 marks)

Part B

1. Tesco Company reported the following summarized annual data at the end of 2014:

Sales revenue	RM 1,000,000
Cost of goods sold*	600,000
Gross margin	400,000
Operating expenses	270,000
Income before income taxes	RM 130,000

*Based on an ending FIFO inventory of RM250,000.

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QUESTION 1 (Cont'd)

Part B

The income tax rate is 30%. The controller of the company is considering a switch from FIFO to average-cost. He has determined that on an average-cost basis, the ending inventory would have been RM220,000.

Required

a) Restate the summary information on an average-cost basis.

(3 marks)

b) What effect, if any, would the proposed change have on Tesco's income tax expense, net income, and cash flows?

(3 marks)

c) If you were an owner of this business, what would your reaction be to this proposed change?

(2 marks)

2. A company uses the periodic inventory system, and the following information is available. All purchases and sales are on credit.

		Units	Unit Cost	Total Cost	Unit Price
1/10	Inventory balance	30	RM 3	RM 90	
6/10	Purchase	70	4	280	
11/10	Purchase	45	5	225	
16/10	Purchase	50	6	300	
	Goods available	195		RM 895	
12/10	Sale	100			RM 10
20/10	Sale	60			11
	Goods sold	160			
31/10	Inventory balance	35			

Required

Assuming the periodic inventory system is used, determine both the cost of the ending inventory and the cost of goods sold using the LIFO method for October.

(2 marks)

(Total: 25 marks)

Continued...

QUESTION 2

Part A

1. A company uses the aging of accounts receivable method to estimate its bad debts expense. On December 31 of the current year an aging analysis of accounts receivable revealed the following:

Accounts Receivable	Account Age	Estimated Uncollectible
RM 620,000	Not due yet	0.5%
270,000	1 – 30 days overdue	2.0%
145,000	31 – 60 days overdue	8.0%
55,000	61 – 90 days overdue	20.0%
32,000	91 – 120 days overdue	50.0%
18,000	Over 120 days overdue	70.0%
RM 1,140,000	Total	

Required

a) Compute the amount of the Allowance for Doubtful Accounts that should be reported on the current year-end Statement of Financial Position.

(2 marks)

b) Compute the amount of the Bad Debts Expense that should be reported on the current year's income statement, assuming that the balance of the Allowance for Doubtful Accounts on January 1 of the current year was RM44,000 and that accounts receivable written off during the current year totaled RM49,200.

(2 marks)

c) Prepare the adjusting entry to record bad debts expense on December 31 of the current year.

(2 marks)

d) Show how Accounts Receivable will appear on the current year-end balance sheet as of December 31.

(2 marks)

2. Heavy Industries Company which has a calendar year-end uses the straight-line method of depreciation.

i. On September 30, 2014, the company exchanged the old delivery equipment with the new delivery equipment for RM24,000. The old delivery equipment was purchased on January 1, 2012, for RM84,000 and was estimated to have a RM12,000 residual value at the end of its 5-year life. Depreciation on the delivery equipment has been recorded through December 31, 2013. It is estimated that the fair value of the old delivery equipment is RM39,000 on September 30, 2014.

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ii. On June 30, 2014, the company exchanged the old office equipment with the new office equipment for RM40,000. The old office equipment originally cost RM80,000 and had accumulated depreciation to the date of disposal of RM35,000. It is estimated that the fair value of the old office equipment on June 30 was RM50,000. The transaction has commercial substance.

Required

a) Prepare the journal entries to record the above two transactions

(7 marks)

b) Describe the accounting for natural resources, including their acquisition, cost allocation, and account titles

(2 marks)

Part B

The following section is taken from MDB Corp's statement of financial position at December 31, 2015.

Current liabilities	
Interest Payable	RM 180,000
Non-current liabilities	
Bonds Payable, 9%, due January 1, 2020	RM 4,000,000

Interest is payable semiannually on January 1 and July 1. The bonds are callable on any interest date.

Required

a) Journalize the payment of the bond interest on January 1, 2016.

(2 marks)

b) Assume that on January 1, 2016, after paying interest, MDB Corp. calls bonds having a face value of RM1,600,000. The call price is 104. Record the redemption of the bonds.

(2 marks)

c) Prepare the entry to record the payment of interest on July 1, 2016, assuming no previous accrual of interest on the remaining bonds.

(2 marks)

d) Bonds may be redeemed (retired) before maturity by the issuing corporation. Explain why a company would decide to retire bonds before maturity and the necessary steps to record the redemption.

(2 marks)

(Total: 25 marks)

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QUESTION 3

Green Valley Resort operates the business on June 1 2016 with 15 air-conditioned chalets. Its trial balance before adjustment on August 31 2016 is presented below.

Green Valley Resort
Trial balance as at August 31, 2016

	Debit RM	Credit RM
Cash	246,000	
Supplies	43,000	
Prepaid insurance	54,000	
Land	400,000	
Buildings	1,320,000	
Equipment	360,000	
Accounts payable		65,000
Unearned rent revenue		68,000
Mortgage payable		1,200,000
Common stock		1,000,000
Dividends	50,000	
Rent revenue		800,000
Salaries and wages expense	530,000	
Utilities expense	94,000	
Maintenance and repairs expense	36,000	
	3,133,000	**3,133,000**

Additional information:

i. A count of supplies on August 31 shows RM9,000 of supplies on hand.
ii. Unearned rent of RM40,000 was earned prior to August 31.
iii. Insurance expires at the rate of RM5,000 per month.
iv. Annual depreciation is RM66,000 on building and RM40,000 on equipment.
v. The mortgage interest rate is 6% per year. (the mortgage was taken out on August 1).
vi. Salaries of RM6,000 were unpaid at August 31.
vii. Rental of RM16,000 were due from tenants at August 31.

Required:

a) Prepare a statement of profit and loss account for the 3 months ended 31 August 2016.

(10 marks)

b) Prepare a retained earnings statement for the 3 months ended 31 August 2106.

(2 marks)

Continued...

c) Prepare a statement of financial position as at 31 August 2016. (10 marks)

d) Explain THREE limitations of trial balance. (3 marks)

(Total: 25 marks)

QUESTION 4

The comparative statement data for Diamond Bhd and Crystal Bhd are as follows.

Statement of Profit and Loss Account for the year ended 31 December 2015

	Diamond RM	Crystal RM
Net sales	1,356,000	1,436,500
Less: Cost of goods sold	776,300	771,700
Gross profit	579,700	664,800
Other income	9,000	500
	588,700	665,300
Less: expenses		
Selling and administration expenses	380,600	605,500
Interest expense	100	100
Income tax expense	63,600	19,700
Net profit	144,400	40,000

Statement of Financial Position as at 31 December 2015

	Diamond RM	Crystal RM
Current assets	885,700	617,200
Non-current assets	280,800	219,100
Total assets	1,166,500	836,300
Current liabilities	166,500	218,000
Long-term debts	29,900	41,100
Total stockholders' equity	970,100	577,200
Total liabilities and stockholders' equity	1,166,500	836,300
Additional information:		
Average net accounts receivable	293,200	196,100
Average inventory	239,100	194,300
Net cash provided by operating activities	124,500	38,600
Capital expenditures	34,300	30,500
Dividends	20,900	0

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Required:

a) Calculate the following ratios for each company.

1) Profit margin
2) Return on common stockholders' equity
3) Return on assets
4) Current ratio
5) Current cash debt coverage
6) Accounts receivable turnover
7) Inventory turnover.
8) Debt to assets ratio
9) Times interest earned
10) Free cash flow.

(20 marks)

b) Assess and compare the profitability, liquidity and solvency for the two companies.

(5 marks)
(Total: 25 marks)

End of Paper